# Tax News

Louise A. Sallmann

# TAX NEWS

By LOUISE A. SALLMANN, C.P.A., Oakland, California

Happy 1958 Tax Season! Or will it be as we start the first season under the 1954 Revenue Code with a complete set of regulations. 1955, 1956 and 1957 may have been years when the saying "ignorance is bliss" was appropriate but the latter half of 1957 and the forthcoming year will prove that it certainly is not going to be accepted as an excuse.

At this point we are all pretty much aware of what the regulations have done to destroy what looked like a boon to the taxpayer in the 1954 Code . . . in particular . . . rapid methods of depreciation. True, they are still available; however, there are so many strings attached to their application that most taxpayers rue the day they made an election to use the 200% declining balance method of computing depreciation, or the sum of the years' digits method. Even the conservatives are currently in trouble with the old straight-line method. What do we do now to reconcile the differences created by the conflict between the Code, the regulations, the revenue rulings and the various interpretations of examining agents.

Our first concern should be with the effect of the regulations upon the interpretation of the Code. Under the 200% declining balance and the sum of the years' digits methods, an asset must have been acquired new subsequent to December 31, 1953 and have a useful life of three or more years. To these Code requirements the regulations have added that such an asset may not be depreciated beyond salvage value, and the Internal Revenue Service has taken the position that "useful life" must be defined as it applies to each individual taxpayer.

For example, if a taxpayer has made a practice of replacing his automotive equipment every two years, even though he has used a four year life as a basis for computing depreciation, then the useful life of such equipment is two not four years and the rapid methods of depreciation do not apply. If the asset is held generally for more than two years, that is, three or more years, but is of the short lived nature of an automobile there is no advantage in the use of a rapid method of depreciation since it may not be depreciated beyond its salvage value. It may still be well to use the method for furniture, fixtures and equipment and buildings as between now and 1964 we can hope for some action in the Tax Courts. These classes of assets are usually depreciated over ten or more years and the question of salvage value will not be raised except in the event of sale or other disposition.

The use of the straight-line method has also been complicated since the requirement for establishing a salvage value is now being strictly adhered to by the Internal Revenue Service. The best approach to determining what the Service will consider as a reasonable salvage value is questionable. In this area accountants have approached the District Director for a rule of thumb. In the San Francisco District a 15% salvage value for automobiles, 10% for furniture, fixtures and equipment, 0% for buildings has been tentatively agreed upon. Assets which have been acquired prior to January 1, 1957, and have been depreciated to some extent under the straight-line method should be further reduced by the salvage value and the remainder of cost recovered over the remaining life.

One bright spot in things concerned with depreciation is Revenue Ruling 57-352. This ruling will now allow the use of the 150% declining balance method of depreciation for assets, new or *used,* if purchased subsequent to December 31, 1953, and an election is made to do so in the return filed for the year of acquisition. This method may be applied to a single asset or class of assets. Prior to Revenue Ruling 57-352, the 150% declining balance method was only available to new taxable entities or upon application to the Commissioner and had to be applied to all classes of assets.

1958 may bring clarification to the Code and regulations through additional Revenue Rulings and the Tax Courts; until then discretion and full disclosure to the client of the problems involved, will have to suffice.